



2011 Local Government Debt Overview

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North Carolina Department of State Treasurer
State and Local Government

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Establishment of the LGC - Overview

- Economic History - Roaring Twenties
- North Carolina Situation
- The Crash in 1929
- The Response - GS Chapter 159
 - Local Government Finance Act
 - ❖ Local Government Commission
 - ❖ Budgets and Fiscal Control
 - ❖ Long-term Financing



History of the LGC

- Much pain in NC due to the boom period after WWI
 - Debt increased 700%
 - Legitimate needs for roads & schools
 - Lack of statutory control
- By 1931, Great Depression hit NC hard



History of the LGC (cont'd)

- Over 200 bank failures by the mid 30's
- Counties responded by slashing budgets
- By 1933, many NC local governments in default
 - 62 counties
 - 152 municipalities
 - 200 special tax districts



History of the LGC (cont'd)

- 1931-33 session of the General Assembly determined that
 - State will be responsible for roads, schools, prisons
 - Income tax increased, sales tax passed to generate revenue
- To assist local governments, created the Local Government Commission



History of the LGC (cont'd)

- LGC given authority to:
 - Review, approve, and conduct sales of all proposed bond issues by local governments
 - Mandate the enforcement of sinking fund requirements
 - Directly intercede with financial operations of a unit of government if needs exists



History of the LGC (cont'd)

- Other changes that came from the 1933 Session:
 - Each unit of government required to have finance officer
 - Uniform budgeting/bookkeeping
 - Calendar/schedule developed with deadlines
 - Fiscal code developed (chart of accounts)



History of the LGC (cont'd)

- Results:
 - By 1946, local government debt reduced from \$350 million to \$241 million
 - War was over and economy was good
 - Revenues increased due to increasing property values



LGC Today

- LGC oversight of local government debt is unique
- North Carolina has a reputation as a “good paper state”
- N. C. debt sells ½ to 1% lower than national indices
- LGC role is well-recognized by Bond rating agencies



The Local Government Commission

- Nine members
- Chaired by State Treasurer, Janet Cowell
- Other members
 - State Auditor, Beth Woods, CPA
 - Secretary of State, Elaine Marshall
 - Secretary of Revenue, David Hoyle
- Executive Committee



The Local Government Commission

- Additional Five appointed members = Full LGC
- One appointed member must be a current or former city council member and one must be a current or former county commissioner
- Statutory authority for the Commission can be found in G.S. Chapter 159



LGC Meeting Schedule

- Meets on the 1st Tuesday of the month
- Even months = Full Commission
- Odd months = Executive Committee
 - Executive Committee has authority to approve most financings
 - Swaps, tax increment financings, special assessment bonds and toll road financings require approval of full Commission



Five Categories of Financings

General Obligation

- New issue
- 2/3 issue
- Refunding
- Restructuring

Revenue

- Private Place.
- Public
- Refunding
- Turnpike Approp.
- Power Agencies
- NCMCC
- GARVEEs
- HFA
- NCCFFA
- IRB
- Turnpike Toll
- Special Assess.

Special Obligation

Public
Private Place.
Refunding

Installment Purchase

- Installment Purchase
- Certificates of Participation
- Limited Obligation
- Refunding
- Guaranteed Energy Savings Contracts

Other Financings

- State Revolving Loans
- Project Development Financing
- Qual. Zone Academy Bonds
- Qual. School Const. Bonds



Staff Recommendations Based on Statutorily Defined Findings

Findings (statutorily defined)

Necessary and expedient

Adequate and not excessive

Assessment of debt management procedures

Bonds can be marketed at reasonable rates

Tax increase is not excessive (G.O., S.O., and I.P. only)

Feasibility (Revenue, S.O., and I.P. only)

Preferable to a G.O. bond (S.O. and I.P. only)

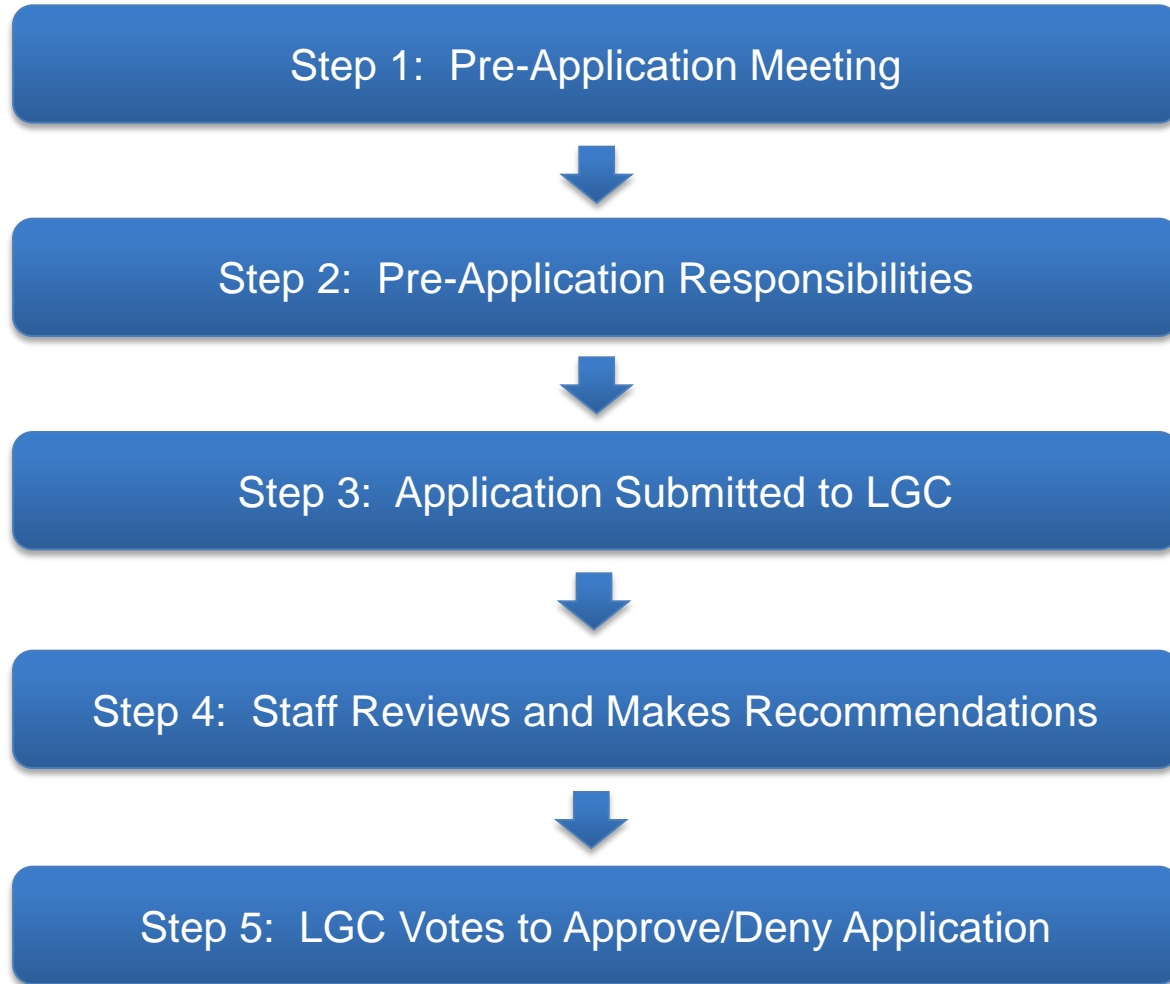


Other Statutorily-defined Considerations

- Net outstanding debt < 8% of total assessed value of unit's tax base
- Debt service as percent of expenditures (normally < 15% - standard ratings agencies criteria)
- Ratings by independent ratings agencies
- Amount of outstanding debt
- Tax rates & tax collection record
- Value of property subject to tax
- Compliance with Budget & Fiscal Control Act
- If applicable, sufficiency of proposed revenues
- Other matters



Five Steps of Debt Issuance



Debt Issuance – New Reporting Requirement

Possible Issues with Respect to the 45 day Notice Requirement

Borrowing rates for bank private placements usually not determined. Bank rates usually received 30 days prior to LGC meeting

Project Bids may not be received making it difficult to determine exact amount of borrowing.

Terms (length) of financing may not be known until bank responses are received.

At 45 days from proposed LGC approval, there may still be factors which delay the submission of the application , i.e. necessary permits (federal, state, or local).



Policy Guidelines for Debt Issuance

Unit meets with LGC staff prior to submitting an application to discuss project and finances.

If issuer has formal capital planning process, borrowing has been included in that plan.

Certified bid tabs to substantiate at least 70% of the amount to be borrowed

All major permits required for the project have been obtained.

Borrowings for capital needs and not operations.

Threat of or existence of litigation concerning the project or its financing have been resolved.

Demonstration of community support for the project and its financing mechanism.

Unit counsels give legal opinions that financings are in compliance with all applicable State, federal and local laws.



Policy Guidelines for Finance Structuring

Length of borrowing does not exceed asset life – financing term usually ≤ 20 years.

Level principal payments required for borrowings to be paid back by General Fund revenues.

Level payments (principle and interest) allowed for enterprise fund borrowings.

Capitalized interest and deferred principal may be allowed until project up and running.

Private bank placements for most loans less than \$10 million and 10-15 year term.

If debt is publicly sold, the issuer must have an investment grade rating.

For refundings, should achieve 3% interest cost savings of amount refunded; no extension of term permitted



FY2009-2011 Financings

Type of Bonds	10-11 #	10-11 \$\$ (Millions)	09-10 #	09-10 \$\$ (Millions)	08-09 #	08-09 \$\$ (Millions)
Bonds & Notes Sold for Local Governments	227	\$2,374.3	297	\$ 4,921.6	156	\$ 3,364.7
Installment Lease Contracts Sold for Local Units	158	\$ 925.8	122	\$ 1,557.1	141	\$ 1,557.1
Grand Total Issued	385	\$3,300.1	419	\$ 6,478.7	297	\$ 4,921.8



Outstanding Balances – NC Local Governments

Type of Bonds (Includes Districts and Authorities)	10-11 \$\$ (Millions)*	09-10 \$\$ (Millions)	08-09 \$\$ (Millions)*	07-08 \$\$ (Millions)
General Obligation Total	\$10,319.0	\$10,575.4	\$10,754.4	\$ 9,917.1
Installment Purchase Total	\$ 8,176.1	\$ 7,968.2	\$ 7,478.7	\$ 6,767.3
Revenue, S.O., Revolving Loans, IRBs	\$11,784.6	\$11,830.0	\$ 9,310.5	\$10,286.4
Grand Total Outstanding	<u>\$30,279.7</u>	<u>\$ 30,373.6</u>	<u>\$ 27,543.6</u>	<u>\$ 26,970.8</u>

Source: NC Department of State Treasurer, Annual Reports , 2008-2010

* FY 2011 Preliminary numbers; FY2009 Revised numbers



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Questions and Comments





Thank you!

Together, we can build and maintain a fiscally strong and prosperous North Carolina.

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